

SUMMARY OF MAJOR CHANGES TO DOD 7000.14-R, VOLUME 13, CHAPTER 1 “NONAPPROPRIATED FUND ACCOUNTING”		
Substantive revisions are denoted by a ★ preceding the section or paragraph with the substantive change or revision.		
PARA	EXPLANATION OF CHANGE/REVISION	PURPOSE
010101	Incorporates the definition of a Nonappropriated Fund Instrumentality.	Update
010103	Inserts references to Department of Defense (DoD) Directive 1015.14, “Establishment, Management, and Control of Nonappropriated Fund Instrumentalities and Financial Management of Supporting Resources,” and DoD Instruction 1015.15, “Procedures for Establishment, Management, and control of Nonappropriated Fund Instrumentalities and Financial Management of Supporting Resources.”	Update
0114	Delete. The DoD Ethics Regulation is the Department’s governing Department-wide issuance on matters relating to Departmental ethics and should be the only place where the subject of this paragraph is dealt with in any Department-wide issuance.	Delete

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CHAPTER 1

NONAPPROPRIATED FUND ACCOUNTING0101 NONAPPROPRIATED INSTRUMENTALITY AND FUNDS

★ 010101. Nonappropriated Fund Instrumentality. A Nonappropriated Fund Instrumentality (NAFI) is a DoD organizational and fiscal entity that is supported in whole or in part by Nonappropriated funds. It acts in its own name to provide or assist Secretaries of the Military Departments in providing programs for DoD personnel. It is not incorporated under the laws of any state or the District of Columbia, but has the legal status of an instrumentality of the United States.

010102. Nonappropriated Funds. Nonappropriated funds are monies that are not appropriated by the Congress of the United States. Nonappropriated funds come primarily from the sale of goods and services to DoD military and civilian personnel and their family members. These funds are used to support the MWR, lodging, and certain religious and educational programs. Nonappropriated funds are government funds entitled to the same protection as funds appropriated by the Congress of the United States; they are used for the collective benefit of military personnel, their family members, and authorized civilians. These funds are separate and apart from funds that are recorded in the books of the Department of the Treasury.

★ 010103. Appropriated Funds. Appropriated funds (APF) are monies that the Congress makes available to the Department. Generally, appropriations are of two types: annual and multiyear. The appropriation acts approved by the Congress specify the purpose for which the APFs shall be used. Accounting for APFs is significantly different than accounting for NAFs. Specific accounting policies and procedures for APFs are described in Volume 4 of this Regulation. For additional information on the use and accounting of APFs for NAF activities, see DoD Directive 1015.14 (“Establishment, Management, and Control of Nonappropriated Fund Instrumentalities and Financial Management of Supporting Resources”) and DoD Instruction 1015.15 (“Procedures for Establishment, Management, and Control of Nonappropriated Fund Instrumentalities and Financial Management of Supporting Resources”).

0102 ACCOUNTING

010201. Accounting is the process of recording, classifying, and summarizing in a significant manner and in terms of money, transactions and events that are, in part at least, of a financial nature, and interpreting the results thereof. The primary use of accounting information is to aid decision makers.

A. Recording. Recording of business transactions in an accurate and prompt manner is an essential requirement of both manual and automated accounting systems.

B. Classifying. Classifying relates to the process of sorting or grouping like things together rather than merely keeping a simple, diary-like narrative record of numerous and varied transactions and events. Ledgers are used to classify the journal entries according to like events.

1. General Ledger. The general ledger is the core of the NAF accounting system and lists all of the accounting entries for the current period. A separate general ledger is established for each NAFI. All NAF accounting systems shall use the chart of accounts specified in the appropriate DoD Component issuance. At the end of each month, each NAFI shall prepare a trial balance listing the balances in the general ledger accounts shall be prepared. Annually, close the income and expense accounts to Fund Equity.

2. Subsidiary Records. The NAF accounting systems have subsidiary records. If the number of transactions for a particular general ledger account is small, or if balances are reversed at the beginning of each month, or if the required data is maintained on a computer, then a formal subsidiary ledger is not required. In some cases, a simple file system or the equivalent may be adequate if it substantiates the general ledger account balance. Three typical subsidiary ledgers are listed below.

a. Accounts Payable. Under a voucher system, a tickler or suspense file of unpaid vouchers can serve as the accounts payable subsidiary file. At the end of each month, reconcile the total of all unpaid vouchers in this file to the general ledger control account.

b. Prepaid Accounts. Maintain a subsidiary record to aid proration of expenses for prepaid supplies, maintenance, or insurance. Reconcile any unexpired or unused amounts to the applicable general ledger control account.

c. Accounts Receivable. Subsidiary records for receivables are of vital importance in the accounting system. Maintain detailed records so that one can accurately identify the debtor and the amount of the debt. The same subsidiary record, for example, may be used to maintain accounts receivable for a member and unamortized advance dues.

C. Summarizing. Summarizing is the process of bringing together financial information to develop financial statements or reports. The balance sheet, income statement, and statement of cash flows are the most commonly used financial statements. The balance sheet presents information about the financial condition of a business at a certain point in time. The income statement presents information about the results of operation (i.e., profit or loss) for the accounting period. The statement of cash flows reflects the amount of net cash given to or used by a business during the period from operating activities, investing activities, and financing activities.

D. Interpreting. Interpreting refers to the steps taken to direct attention to the significance of various matters and relationships. Percentage analyses and ratios often are used to help explain the meaning of related information.

010202. Accounting Information. Accounting information is useful when it is timely, relevant, reliable, cost beneficial, material, comparable, and consistent. These qualities are described below.

A. Timeliness. Timeliness refers to the prompt reporting of financial information to its users when it shall be of maximum benefit. Financial data shall be recorded as soon as practical after the occurrence of a transaction.

B. Relevance. Relevance is the capacity of information to make a difference in a decision by helping users to form predictions about the outcome of past, present, and future events or to confirm or correct prior expectations.

C. Reliability. Reliability is the quality of information which assures that it is reasonably free from error and bias and faithfully represents what it purports to represent.

D. Cost Beneficial. The term “cost beneficial” refers to measuring the expense of obtaining certain information against the benefits of having the information. Information shall not be given if the cost exceeds the benefits derived, unless it is required to meet legal or other specific purposes.

E. Materiality. Materiality refers to whether the information is significant enough to make a difference to a reasonable person who relies on the information. For example, a decision not to disclose information in the financial statements may be made if the amounts involved are too small to make a difference or affect the reliability of the information. In addition to magnitude, the nature of the item shall be considered when making a materiality judgment. Report any information that is material in the financial statements.

F. Comparable. Comparability relates to the similarity and consistency of information produced by an entity from period to period and by others operating in similar circumstances. The value and usefulness of information depends greatly on the degree to which it is comparable to information from prior periods and to similar information reported by others.

G. Consistent. Consistency pertains primarily to information produced by one accounting entity using essentially the same methods over a period of time.

010203. Generally Accepted Accounting Principles. The phrase “generally accepted accounting principles” (GAAP) is a technical accounting term that encompasses the conventions, rules, and procedures necessary to define accepted accounting practice at a particular time. The GAAP includes not only broad guidelines of general application, but also detailed practices and procedures. Those conventions, rules, and procedures establish a standard by which to measure financial presentations.

A. Judgment. Although there are numerous sources of GAAP, some judgment may be necessary to determine whether:

1. The accounting principles selected and applied have general acceptance.
2. The accounting principles are appropriate in the circumstances.
3. The financial statements, including the related notes, are informative of matters that may affect their use, understanding and interpretation.
4. The information presented in the financial statements is classified and summarized in a reasonable manner, i.e., it is neither too detailed nor too condensed.
5. The financial statements reflect the underlying transactions and events in a manner that presents the financial position, results of operations, and cash flows stated within a range of acceptable limits, i.e., limits that are reasonable and practicable to attain in financial statements.

B. GAAP Hierarchy. A GAAP hierarchy has been established that identifies five categories or sources of GAAP (listed below in descending order of importance).

1. Officially established accounting principles that consist of Financial Accounting Standards Board (FASB) Statements of Financial Accounting Standards and Interpretations, Accounting Principles Board (APB) Opinions, and American Institute of Certified Public Accountants (AICPA) Accounting Research Bulletins.
2. The FASB Technical Bulletins and, if cleared by the FASB, AICPA Industry Audit and Accounting Guides and AICPA Statements of Position.
3. The AICPA Accounting Standards Executive Committee promulgations that have been cleared by the FASB and consensus positions of the FASB Emerging Issues Task Force.
4. The AICPA accounting interpretations and implementation guides (“Qs and As”) published by the FASB staff, and practices that are recognized widely and prevalent either generally or in the industry.
5. Other accounting literature, including FASB Concepts Statements; AICPA Issues Papers; International Accounting Standards Committee Statements; Government Accounting Standards Board (GASB) Statements, Interpretations, and Technical Bulletins; pronouncements of other professional associations or regulatory agencies; AICPA Technical Practice Aids; and accounting textbooks, handbooks, and articles.

C. Other Considerations. An important aspect of GAAP, as applied to government entities, is the recognition of the variety of legal and contractual considerations typical of the government environment. These considerations underlie and are reflected in the fund structure, bases of accounting, and other principles, and are a major factor distinguishing governmental accounting from commercial accounting. The following are some of the types of laws and regulations that may have a direct and material effect on the determination of amounts in a NAF activity's financial statements.

1. Requirements for reporting to the Congress, the DoD, and others.
2. Restrictions on the use of appropriated funds.
3. Restrictions on expenditures, including expenditures for construction.
4. Restrictions on investments.
5. Laws and regulations for NAF, Civil Service, and military personnel.

0103 ACCOUNTING METHODS

010301. Accrual Basis. Most NAF organizations shall use the double-entry accrual basis of accounting. This system is used widely by commercial enterprises in the private sector. The general theory of the double-entry accounting system is that, whenever any financial transaction or value change takes place, there are two accounting actions involved. These two actions are expressed as debits and credits. In accordance with established principles of double-entry accounting, equilibrium shall be maintained. Every recording of an entry shall consist of a debit and an offsetting credit and the total dollar amount of debits shall always equal the total dollar amount of credits. Under accrual accounting, transactions and other economic events are recorded when they occur. Revenues are recognized and reported when they are earned. Expenses are recognized and reported when they occur and are deducted from revenue to determine income. Accrual accounting emphasizes matching revenues and expenses associated with each other in the period in which they occur. Accrual accounting contributes to effective financial control over resources and cost of operations, and is essential in developing adequate revenue and cost information.

010302. Cash Basis of Accounting. Under the cash basis of accounting, revenue is recognized when cash is received from the customer or client, and expenses are recognized when cash actually is paid for the item or service received. Chapter 10 of this volume contains the specific policies and procedures for small NAF organizations authorized by their DoD Component to use the cash basis of accounting.

0104 ACCOUNTING PERIOD

The accounting period for the DoD NAF organizations (except the Exchange Services) as set by DoD Instruction 7000.12 (“Financial Management of Morale, Welfare, and Recreational Activities”), begins October 1 of each year and ends September 30 of the next year. The Under Secretary of Defense (Comptroller) shall approve exceptions in writing.

0105 THE ACCOUNTING CYCLE

All DoD NAFIs shall use the calendar month as the interim accounting period.

0106 ACCOUNTING OFFICE (AO)

The NAF AO supplies centralized professional accounting services to supported NAF organizations. All AOs shall follow certain basic standards listed below.

010601. Maintain all books of original entry, the general ledger, and related subsidiary ledgers.

010602. Maintain fixed asset records.

010603. Prepare all disbursement vouchers and checks after assuring availability of funds and pays liabilities of all serviced NAF organizations.

010604. Maintain payroll records when needed.

010605. Prepare required periodic financial reports. The AO supplies the manager with ratios and percentages as requested. The AO also reports variances in relation to established standards or approved budget goals upon request.

010606. Prepare other information when requested by NAF management or higher authority. For example, the AO may supply some financial analysis with an MWR activity’s financial statement, or provide variance from budget data or historical information for use in preparation of NAF budgets.

010607. Prepare and distribute financial reports to all serviced NAF organizations.

010608. Prepare an annual operating budget for the AO. When more than one NAF organization is supported by an AO, then a schedule shall be prepared that shows the estimated amounts to be assessed each supported NAF organization.

010609. Where applicable, reconcile the bank accounts of supported NAF organizations. Review daily account balances shown on monthly bank statements to ensure that insurance and collateral are sufficient. Notify NAF managers of missing or delayed deposit or check documentation.

010610. Compute and bill the cost of operating the AO for each supported NAF organization.

010611. Review documentation for completeness and accuracy.

010612. As required, give documentation to independent auditors.

0107 ACCOUNTING SUPPORT FUNDING

The AO shall charge a service fee to all supported NAF organizations to recover its operating costs.

0108 EXTERNAL ORGANIZATIONAL RELATIONSHIPS

The AO personnel shall be alert for changes in NAF organization cost centers and other changes so that proper accountability can be maintained.

0109 MORALE, WELFARE, AND RECREATION (MWR) CATEGORIES

In accordance with DoD Directive 1015.14, DoD MWR programs have been classified into three basic categories for funding, financial reporting and program management. Each category has specific restrictions and requirements concerning funding. The APF and the NAF resources may be used only where permitted by this Directive.

0110 ACCOUNTING CHANGES

The term “accounting change” means a change in an accounting principle or a change in an accounting estimate. The correction of an error in previously issued financial statements is not an accounting change.

011001. Change in Accounting Principle. A change in accounting principle results from adoption of a generally accepted accounting principle different from the one previously used for reporting purposes. The term “accounting principle” includes not only accounting principles and practices but also the methods for applying them. A characteristic of a change in accounting principle is that it concerns a choice from among two or more generally accepted accounting principles. These include, for example, a change in the method of inventory pricing and a change in the depreciation method for previously recorded assets. In the preparation of financial statements, there is a presumption that an accounting principle, once adopted, shall not be changed in accounting for events and transactions of a similar type. Consistent use of accounting principles from one accounting period to another enhances the utility of financial statements to users by facilitating analysis and understanding of comparative accounting data.

011002. Change in Accounting Estimate. Changes in estimates used in accounting are necessary consequences of periodic presentations of financial statements. Preparing financial statements requires estimating the effects of future events. Examples of items for which estimates are necessary are uncollectible receivables, inventory obsolescence, and service lives and salvage

values of fixed assets. Future events and their effects cannot be predicted with certainty. Estimating, therefore, requires the exercise of judgment. Accounting estimates may change as new events occur, as more experience is acquired, or as additional information is obtained.

0111 ACCOUNTING ERRORS

Errors in financial statements result from mathematical mistakes, mistakes in the application of accounting principles, or oversight or misuse of facts that existed at the time the financial statements were prepared. In contrast, a change in accounting estimates result from new information or subsequent developments and accordingly from better insight or improved judgment. A change from an accounting principle that generally is not accepted to one that is generally accepted is a correction of an error.

0112 FUND EQUITY

Fund equity consists of capital invested in the NAFI plus the profit or minus the loss resulting from operations since its inception. Transactions into and out of equity are limited to net income, net losses, and entries associated with the establishment, disestablishment, certain accounting principle changes, approved prior year error adjustments and distribution of capital. Adjustments to fund equity are very infrequent. When an item has been thoroughly reviewed and it is determined the only appropriate treatment is to adjust Fund equity, forward a letter requesting approval to make the adjustment, together with all the facts surrounding the circumstances, to the DFAS via the appropriate program manager. Any request for fund equity adjustment shall be carefully reviewed by the program manager and the DFAS prior to approval.

A. When a new NAF organization, with pre-existing capital, is authorized, that capital is recorded as equity. As an example, pre-existing capital could be a factor when a private association converts to a membership association. Equity is disestablished when a NAF organization is dissolved.

B. Equity may be distributed by declaring dividends to other NAF organizations. An example is dividends paid by base restaurants. Special grants for new construction and facility improvements are another method of distributing equity. Equity may be transferred in the form of cash or other assets.

0113 EXTRAORDINARY ITEMS

Extraordinary items are events and transactions that are distinguished by their unusual nature and by the infrequency of their occurrence. The following criteria shall be met to classify an event or transaction as an extraordinary item.

011301. Unusual Nature. The underlying event or transaction possesses a high degree of abnormality and is of a type clearly unrelated, or only incidentally related, to the ordinary and typical operations of the NAFI, taking into account the environment in which the NAFI operates.

011302. Infrequency of Occurrence. The underlying event or transaction is of a type that reasonably would not be expected to recur in the foreseeable future, taking into account the environment in which the activity operates.

011303. Disclosure. Show extraordinary items separately as an item affecting net income after operating income and expense. Provide adequate disclosure information regarding extraordinary items in the footnotes to the financial statements.